

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

0 3 — 0 0 1

2. STATE:

Indiana

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACT (MEDICAID)TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

January 2, 2003

5. TYPE OF PLAN MATERIAL (Check One):

☐ NEW STATE PLAN☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

405 IAC 1-14.5-13; 405 IAC 1-14.5-14;
405 IAC 1-14.5-15

7. FEDERAL BUDGET IMPACT:

a. FFY 03 \$ -0-

b. FFY 04 \$ -0-

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

4.19D - Pages 56, 58, 59

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

4.19D - Pages 56, 58, 59

10. SUBJECT OF AMENDMENT:

Makes changes to the HIV nursing facility reimbursement rule to
comport with federal and mortgage industry practice.

11. GOVERNOR'S REVIEW (Check One):

☐ GOVERNOR'S OFFICE REPORTED NO COMMENT☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL☐ OTHER, AS SPECIFIED:

12. SIGNATURE OF STATE AGENCY OFFICIAL:



13. TYPED NAME:

Melanie Bella

14. TITLE:

Assistant Secretary

15. DATE SUBMITTED:

January 22, 2003

16. RETURN TO:

Melanie Bella, Assistant Secretary
Office of Medicaid Policy and Planning
402 W. Washington St., Room W382
Indianapolis, Indiana 46204
ATTN: Tracy Brunner

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

1/28/03

18. DATE APPROVED:

2/26/03

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

1/2/03

20. SIGNATURE OF REGIONAL OFFICIAL:



21. TYPED NAME:

CHARLENE BROWN

22. TITLE:

Deputy Director, CMSO

23. REMARKS:

RECEIVED

JAN 28 2003

DMCH/ARA

exception to this subsection may be granted by the office if requested in writing by the provider before the rate effective date of the review to which the exception is to apply.

(e) The office shall grant an exception when a related organization meets all of the following conditions:

- (1) The supplying organization is a bona fide separate organization.
- (2) A sufficient part of the supplying organization's business activity is transacted with other than the provider and organizations related to the supplier in common ownership or control, and there is an open competitive market for the type of services, facilities, or supplies furnished by the organization.
- (3) The services, supplies, or facilities are those which commonly are obtained by institutions, such as the provider, from other organizations and are not a basic element of patient care ordinarily furnished directly to patients by such institutions.
- (4) The charge to the provider is in line with the charge for such services, facilities, or supplies in the open market and no more than the charge made under comparable circumstances to others by the organization for such services, facilities, or supplies.

405 IAC 1-14.5-12 Allowable costs; capital return factor

Sec. 12. (a) Providers shall be reimbursed for the use of facilities and equipment, regardless of whether they are owned or leased, by means of a capital return factor. The capital return factor shall be composed of a use fee to cover the use of facilities, land and equipment, and a return on equity. Such reimbursement shall be in lieu of the costs of all depreciation, interest, lease, rent, or other consideration paid for the use of property. This includes all central office facilities and equipment whose patient care-related depreciation, interest, or lease expense is allocated to the facility.

(b) The capital return factor portion of the established rate is the sum of the allowed use fee, return on equity, and rent payments.

(c) Allowable patient care-related rent, lease payments, and fair rental value of property used through contractual arrangement shall be subjected to limitations of the capital return factor as described in this section.

405 IAC 1-14.5-13 Allowable cost; capital return factor; computation of use fee component; interest; allocation of loan to facilities and parties

Sec. 13. (a) The use fee limitation is based on the following:

- (1) The assumption that facilities and equipment are prudently acquired and financed.
- (2) Providers will obtain independent financing in accordance with a sound financial plan.
- (3) Owner capital will be used for the balance of capital requirements.

(b) The amortization period to be used in computing the use fee shall be the greater of twenty (20) years or the actual amortization period for the facility and for facilities and equipment where a single lending arrangement covers both. Where equipment is specifically financed by means of a separate lending arrangement, a minimum of seven (7) years shall be the amortization period. Provided, however, that a mortgage existing on April 1, 1983, has a fully amortizing life of less than twenty (20) years, the use fee will be calculated using the actual life of the lending arrangement, but not less than twelve (12) years.

(c) The use fee component of the capital return factor shall be limited by the lesser of:

- (1) the original loan balance at the time of acquisition;
- (2) eighty percent (80%) of historical cost of the facilities and equipment; or
- (3) eighty percent (80%) of the maximum allowable property basis at the time of the acquisition plus one-half (1/2) of the difference between that amount and the maximum property basis per bed on the rate effective date.

(d) The maximum interest rate allowed in computing the use fee shall not exceed one and one-half percent (1.5%) above the United States Treasury bond, ten (10) year amortization, constant maturity rate plus three

TN: 03-001

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(2) a new operation;

on or after the effective date of this rule, the return on equity shall be computed on the actual equity in allowable facilities and equipment up to a maximum of eighty percent (80%) of allowable historical cost of facilities and equipment.

(c) The return on equity factor shall be equal to the interest rate used in computing the use fee plus one percent (1%), or one percent (1%) below the United States Treasury bond, ten (10) year amortization, constant maturity rate on the last day of the reporting period, plus three percent (3%), whichever is higher.

(d) The return on equity determined under this section shall be subject to the limitations under section 15(b) of this rule.

405 IAC 1-14.5-15 Allowable costs; capital return factor; use fee; depreciable life; property basis

Sec. 15. (a) The following is a schedule of allowable use fee lives by property category:

Property Basis	Use Fee Life
Land	20 years
Land improvements	20 years
Buildings and building components	20 years
Building improvements	20 years
Movable equipment	7 years
Vehicles	7 years

The maximum property basis per bed at the time of acquisition shall be in accordance with the following schedule:

Acquisition Date	Maximum Property Basis Per Bed
7/1/76	\$12,650
4/1/77	\$13,255
10/1/77	\$13,695
4/1/78	\$14,080
10/1/78	\$14,630
4/1/79	\$15,290
10/1/79	\$16,115
4/1/80	\$16,610
10/1/80	\$17,490
4/1/81	\$18,370
10/1/81	\$19,140
4/1/82	\$19,690
9/1/82	\$20,000
3/1/83	\$20,100
9/1/83	\$20,600
3/1/84	\$20,600
9/1/84	\$21,200
3/1/85	\$21,200
9/1/85	\$21,200
3/1/86	\$21,400
9/1/86	\$21,500
3/1/87	\$21,900
9/1/87	\$22,400

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3/1/88	\$22,600
9/1/88	\$23,000
3/1/89	\$23,100
9/1/89	\$23,300
3/1/90	\$23,600
9/1/90	\$23,900
3/1/91	\$24,500
9/1/91	\$24,700
3/1/92	\$24,900
9/1/92	\$25,300
3/1/93	\$25,400
9/1/93	\$25,700
3/1/94	\$26,000
9/1/94	\$26,300
3/1/95	\$26,500
9/1/95	\$27,300
3/1/96	\$27,700
9/1/96	\$28,000
3/1/97	\$28,300
9/1/97	\$28,600

The schedule shall be updated semiannually, effective on March 1 and September 1 by the office, and rounded to the nearest one hundred dollars (\$100) based on the change in the R.S. Means Construction Index.

(b) The capital return factor portion of a rate that becomes effective after the acquisition date of an asset shall be limited to the maximum capital return factor which shall be calculated as follows:

(1) The use fee portion of the maximum capital return factor is calculated based on:

(A) the maximum property basis per bed at the time of acquisition of each bed, plus one-half (1/2) of the difference between that amount and the maximum property basis per bed at the rate effective date times eighty percent (80%);

(B) the term is determined per bed at the time of acquisition of each bed and is twenty (20) years for beds acquired on or after April 1, 1983, and twelve (12) years for beds acquired before April 1, 1983; and

(C) the allowable interest rate is the United States Treasury bond, ten (10) year amortization, constant maturity rate plus three percent (3%), rounded to the nearest one-half percent (.5%) plus one and one-half percent (1.5%) at the earlier of the acquisition date of the beds or the commitment date of the attendant permanent financing.

(2) The equity portion of the maximum capital return factor is calculated based on:

(A) the allowable equity as established under section 14 of this rule; and

(B) a rate of return on equity that is the greater of United States Treasury bond, ten (10) year amortization, constant maturity rate plus three percent (3%), rounded to the nearest one-half percent (.5%) on the last day of the reporting period minus one percent (1%), or the weighted average of the United States Treasury bond, ten (10) year amortization, constant maturity rate plus three percent (3%), rounded to the nearest one-half percent (.5%) plus one percent (1%) at the earlier of the acquisition date of the beds or the commitment date of the attendant permanent financing.

(c) For facilities with a change of provider status, the allowable capital return factor of the buyer/lessee shall be no greater than the capital return factor that the seller/lessor would have received on the date of the transaction, increased by one-half (1/2) of the percentage increase (as measured from the date of acquisition/lease commitment date by the seller/lessor to the date of the change in provider status) in the Consumer Price Index for All Urban Consumers (CPI-U) (United States city average). Any additional allowed capital expenditures incurred by the buyer/lessee shall be treated in the same manner as if the seller/lessor had incurred the additional capital expenditures.

(d) The following costs which are attributable to the negotiation or settlement of the sale or purchase of any capital asset (by acquisition or merger) for which any payment has been previously made under the Indiana Medicaid program shall not be recognized as an allowable cost:

(1) Legal fees.

(2) Accounting and administrative costs.

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